

Exhibit 1

SETTLEMENT AGREEMENT

I. PARTIES

This Settlement Agreement (Agreement) is entered into between the United States of America, acting through the United States Attorney's Office for the Eastern District of Pennsylvania; and Ernst & Young (E&Y), (hereafter jointly referred to as "the Parties"), through their authorized representatives.

II. PREAMBLE

As a preamble to this Agreement, the Parties agree to the following:

A. The United States Attorney's Office for the Eastern District of Pennsylvania conducted an investigation into health care advice provided by E&Y to nine hospitals relating to Medicare claims submitted by the hospitals for clinical laboratory outpatient services identified by numerical Current Procedural Terminology codes. During the period of 1991 through 1997, the nine hospital clients either operated clinical laboratories or contracted with outpatient clinical laboratories that, among other things, performed certain blood tests on Medicare beneficiaries. The United States identified from its investigation certain claims which it believes constituted the submission of false or fraudulent claims in violation of the False Claims Act, 31 U.S.C. §§ 3729-3733. Throughout the investigation, E&Y cooperated with the United States.

B. On January 5, 2004, the United States filed a civil action captioned *United States v. Ernst & Young*, Civil Action No. 04-0041, Eastern District of Pennsylvania. The United States contends that it has certain civil claims against E&Y under the False Claims Act, 31 U.S.C. §§ 3729-3733, other federal statutes and/or common law doctrines, for knowingly causing the nine hospitals to submit claims for payment under the Medicare program during the period from 1991 through 1997 for certain blood tests which were performed but which were not medically necessary, including concealing and/or failing to disclose false claims that certain

E&Y client hospitals had previously submitted to the Medicare program in violation of the False Claims Act (hereinafter referred to as the "Covered Conduct"). The United States contends that as a result of the improperly billed claims, nine hospitals received payments to which they were not entitled.

C. On March 1, 2004, E&Y filed a Motion to Dismiss the Complaint in the above-referenced action. In its Motion to Dismiss, E&Y asserted that it did not cause any false or inaccurate claims to be submitted under the Medicare program, that E&Y did not conceal or fail to disclose any false claims, and that the allegations in the Complaint were without factual or legal merit.

D. This Agreement is neither an admission of liability by E&Y nor a concession by the United States that its claims are not well founded.

E. In order to avoid the delay, uncertainty, inconvenience and expense of protracted litigation of these claims, the Parties reach a full and final settlement as set forth below.

III. TERMS AND CONDITIONS

NOW, THEREFORE, in consideration of the mutual promises, covenants, and obligations set forth below, and for good and valuable consideration as stated herein, the Parties agree as follows:

A. E&Y agrees to pay to the United States the sum of \$1,500,000 (the "Settlement Amount"). This sum shall constitute a debt immediately due and owing to the United States on the execution of this Settlement Agreement and Release. E&Y shall, within thirty (30) days of the execution of this Settlement Agreement and Release by all signatories hereto, make payment of the Settlement Amount of \$1,500,000 by electronic funds transfer pursuant to written instructions to be provided by the United States. If such amount is not timely paid, not honored at the time of presentment at the bank on which it is drawn, or is otherwise found to be

unpayable, then the United States may, at its sole option, declare this Settlement Agreement and Release to be in default and exercise one or more of the following rights: (1) declare that this Agreement is breached and institute an action in the United States District Court and simultaneously file a Consent Judgment in favor of the United States in an amount equal to the Settlement Amount plus reasonable expenses and legal fees, along with costs and post-judgment interest; (2) file an action for specific performance of the terms of this Agreement; (3) exercise any other right granted by law, or under the terms of this Agreement, or recognizable at common law or in equity; and/or (4) satisfy E&Y's debt to the United States by offset of monies payable to E&Y by any department, agency, or agent of the United States.

B. The United States agrees that counsel for the United States shall file a stipulation of dismissal with prejudice of the pending Complaint in this action upon notice of receipt of the payment described in paragraph A above.

C. Subject to the exceptions in Paragraph D below, in consideration of the obligations of E&Y set forth in this Agreement, conditioned upon E&Y's payment in full of the Settlement Amount, the United States (on behalf of itself, its officers, agents, agencies and departments) agrees to release E&Y together with its current and former partners, employees, divisions, owners, agents, heirs, representatives, successors, and assigns insofar as they have acted in their official capacities, and the affiliates, officers, predecessors, successors, heirs and assigns of any of them, from any civil or administrative monetary claim the United States has or may have under the False Claims Act, 31 U.S.C. §§ 3729-3733; the Civil Monetary Penalties Law, 42 U.S.C. §§ 1320a-7a; the Program Fraud Civil Remedies Act, 31 U.S.C. §§ 3801-3812; or the common law theories of payment by mistake, unjust enrichment, conversion, breach of contract, and fraud, for the Covered Conduct.

D. Notwithstanding any term of this Agreement, specifically reserved and excluded from the scope and terms of this Agreement as to any entity or person (including E&Y, its current or former partners, employees, divisions, owners, agents, heirs, representatives, successors and assigns insofar as they have acted in their official capacities, and the affiliates, officers, predecessors, successors, heirs and assigns of any of them,) are any and all of the following:

1. Any civil, criminal or administrative claims arising under Title 26, U.S. Code (Internal Revenue Code);
2. Any criminal liability;
3. Any administrative liability, including permissive and mandatory exclusion from Federal health care programs;
4. Any liability to the United States (or its agencies) for any conduct other than the Covered Conduct.
5. Any liability based upon such obligations as are created by this Agreement.

E. E&Y fully and finally releases the United States, its agencies, employees, servants, and agents from any claims (including attorneys fees, costs, and expenses of every kind however denominated) which E&Y has asserted, could have asserted, or may assert in the future against the United States, its agencies, employees, servants, and agents, related to the Covered Conduct and the United States' investigation and prosecution thereof.

F. E&Y waives and shall not assert any defenses E&Y may have to any criminal prosecution or administrative action relating to the Covered Conduct, which defenses may be based in whole or in part on a contention that, under the Double Jeopardy Clause in the Fifth

Amendment of the Constitution, or under the Excessive Fines Clause in the Eighth Amendment of the Constitution, this Agreement bars a remedy sought in such criminal prosecution or administrative action. E&Y agrees that this Agreement is not punitive in purpose or effect. Nothing in this Paragraph or any other provision of this Agreement constitutes an agreement by the United States concerning the characterization of the Settlement Amount for purposes of the Internal Revenue laws, Title 26 of the United States Code.

G. The Settlement Amount that E&Y must pay pursuant to this Agreement by electronic wire transfer pursuant to Paragraph 1 above, shall not be decreased as a result of the denial of claims for payment now being withheld from payment by any Medicare carrier or intermediary or any State payor related to the Covered Conduct; and E&Y shall not resubmit or cause to be resubmitted to any Medicare carrier or intermediary or any State payer any previously denied claims related to the Covered Conduct, and shall not appeal any such denials of claims.

H. E&Y agrees to the following:

1. Unallowable Costs Defined: that all costs (as defined in the Federal Acquisition Regulation (FAR) 48 C.F.R. § 31.205-47 and in Titles XVIII and XIX of the Social Security Act, 42 U.S.C. §§ 1395-1395ggg and 1396-1396v, and the regulations and official program directives promulgated thereunder) incurred by or on behalf of E&Y, its current or former partners, employees, divisions, owners, heirs, representatives, successors, assigns and agents insofar as they have acted in their official capacities, and the affiliates, officers, predecessors, successors, heirs and assigns of any of them, and agents in connection with the following shall be "unallowable costs" on contracts between E&Y and the United States under

the Medicare Program, Medicaid Program, TRICARE Program, Veterans Affairs Program (VA), and Federal Employees Health Benefits Program (FEHBP):

- a. the matters covered by this Agreement,
- b. the United States' audit and civil investigation of the matters covered by this Agreement,
- c. E&Y's investigation, defense, and any corrective actions undertaken in response to the United States' audit and civil investigation in connection with the matters covered by this Agreement (including attorney's fees),
- d. the negotiation and performance of this Agreement, and
- e. the payment E&Y makes to the United States pursuant to this Agreement, including any costs and attorneys fees.

The fees previously paid to E&Y by the hospitals included in the Covered Conduct are not intended to be included in the definition of unallowable costs under this Agreement.

2. Future Treatment of Unallowable Costs: These unallowable costs shall be separately estimated and accounted for in non-reimbursable cost centers by E&Y, and E&Y shall not charge such unallowable costs directly or indirectly to any contracts with the United States or any State Medicaid Program, or seek payment for such unallowable costs through any cost report, cost statement, information statement, or payment request submitted by E&Y to the Medicare, Medicaid, TRICARE, VA, or FEHBP Programs.

3. Treatment of Unallowable Costs Previously Submitted for Payment: E&Y further agrees that within 90 days of the Effective Date of this Agreement, it shall identify to applicable Medicare and TRICARE fiscal intermediaries, carriers, and/or contractors, and Medicaid, VA, and FEHBP fiscal agents, any unallowable costs (as defined in this Paragraph)

included in payments previously sought by E&Y from the United States, or any State Medicaid Program, including, but not limited to, payments sought in any cost reports, cost statements, information reports, or payment requests already submitted by E&Y, and shall request, and agrees, that such cost reports, cost statements, information reports, or payment requests, even if already settled, be adjusted to account for the effect of the inclusion of the unallowable costs. E&Y agrees that the United States, at a minimum, shall be entitled to recoup from E&Y any overpayment plus applicable interest as a result of the inclusion of such unallowable costs on previously-submitted cost reports, information reports, cost statements, or request for payment.

Any payments due after the adjustments have been made shall be paid to the United States pursuant to the direction of the Department of Justice, and/or the affected agencies. The United States reserves its rights to disagree with any calculations submitted by E&Y on the effect of inclusion of unallowable costs (as defined in this Paragraph) on E&Y or any of its subsidiaries' cost reports, cost statements, or information reports. Nothing in this Agreement shall constitute a waiver of the rights of the United States to examine or reexamine the unallowable costs described in this Paragraph.

4. Nothing in this Agreement constitutes an admission or representation that any unallowable costs as defined herein actually exist as a consequence of this Agreement.

I. This Agreement is intended to be for the benefit of the Parties only, and by this instrument the Parties do not release any claims against any other person or entity.

J. E&Y warrants that it has reviewed its financial situation and that it currently is solvent within the meaning of 11 U.S.C. §§ 547(b)(3) and 548(a)(1)(B)(ii)(I), and will remain solvent following its payment to the United States of the Settlement Amount. Further, the Parties warrant that, in evaluating whether to execute this Agreement, the Parties (a) have

intended that the mutual promises, covenants and obligations set forth herein constitute a contemporaneous exchange for new value given to E&Y, within the meaning of 11 U.S.C. §§ 547(c)(1); and (b) conclude that these mutual promises, covenants and obligations do, in fact, constitute such a contemporaneous exchange. Further, the Parties warrant that the mutual promises, covenants, and obligations set forth herein are intended and do, in fact, represent a reasonably equivalent exchange of value which is not intended to hinder, delay, or defraud any entity to which E&Y was or became indebted, on or after the date of this transfer, all within the meaning of 11 U.S.C. §§ 548(a)(1).

K. Each party to this Agreement shall bear its own legal and other costs incurred in connection with this matter, including the preparation and performance of this Agreement.

L. E&Y represents that this Agreement is freely and voluntarily entered into without any degree of duress or compulsion whatsoever and has been advised with respect hereto by counsel.

M. This Agreement is governed by the laws of the United States. The Parties agree that the exclusive jurisdiction and venue for any dispute arising between and among the Parties under this Agreement will be the United States District Court for the Eastern District of Pennsylvania.

N. This Agreement constitutes the complete agreement between the Parties. This Agreement may not be amended except by written consent of the Parties.

O. The individuals signing this Agreement on behalf of E&Y represent and warrant that they are authorized by E&Y to execute this Agreement. The undersigned United States signatories represent that they are signing this Agreement in their official capacities and that they are authorized to execute this Agreement.

P. This Agreement may be executed in counterparts, each of which constitutes an original and all of which constitute one and the same agreement.

Q. E&Y understands that this Agreement may be disclosed to the public and consents to the same.

R. The "Effective Date" of this Agreement shall be the date of signature of the last signatory to the Agreement. Facsimiles of signatures shall constitute acceptable, binding signatures for the purposes of this Agreement.

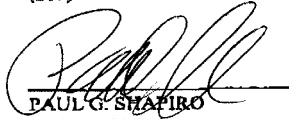
S. This Agreement is binding on E&Y's successors, transferees, heirs and assigns.

IN WITNESS WHEREOF, the parties hereto affix their signatures:

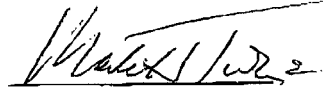
Approved:
PATRICK L. MEEHAN
United States Attorney



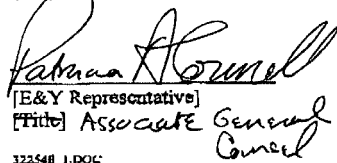
JAMES G. SHEEHAN
Associate U.S. Attorney
615 Chestnut Street
Suite 1250
Philadelphia, PA 19106
(215) 861-8325

Dated: 7/19/04

PAUL G. SHAPIRO
Assistant U.S. Attorney
615 Chestnut Street
Suite 1250
Philadelphia, PA 19106
(215) 861-8325

Dated: 7/19/04

Mark H. Tuohy III, Esquire
William E. Lawler III, Esquire
Vinson & Elkins, L.L.P.
1455 Pennsylvania Avenue, N.W.
Washington DC 20004-1008
(202) 639-6500

Dated: 7/19/04

[E&Y Representative]
[Title] Associate General
Council

Dated: 7/19/04

3225481.DOC